



**Board Meeting  
September 7, 2012**

**PRESENT:** Jack Rodgers, Interim Chairperson; Mark Pierzchala, Councilmember; Kyle France, Union Representative; Anita McCombs, AAME Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Mark Godette for Human Resources; Craig Graby, Hay Group; Adam Reese, Hay Group; Vincent (Chip) Boylan, Willis Insurance as well as Ryen Sherman, Segal Rogerscasey, Inc.

**ABSENT:** Cpl. Chris Peck, FOP Representative and the City Manager

The meeting commenced at 10:00 a.m. with introductions. Mr. Cohen explained that Mr. Espinosa would no longer serve the Board due to relocation outside of the City of Rockville corporate city limits. Mr. Rodgers agreed to serve as interim Chairperson for today's meeting. Mr. France made motion to accept Mr. Rodgers as interim Chairperson for this meeting, Councilmember Pierzchala seconded it. All were in favor. Mr. Rodgers accepted the position for the rest of the year. He will be appointed by the Mayor and Council on September 10, 2012.

**I. Approval of Minutes June 1, 2012:**

Mr. Rodgers asked if anyone had any changes or questions regarding the minutes. Councilmember Pierzchala commented that the acronym BPS (Basis Points) needed to be spelled out in three places. The next change is Item II, second paragraph, second line, "change, "there were not any issues" to "there were no issues". Six lines down the term offsets, Mr. Cohen will come up with a term for offsets to make it clearer. Item V, second paragraph, third line, CAFR should be spelled out to say City of Rockville's Comprehensive Annual Financial Report. Sixth line down sentence should read, Councilmember Pierzchala wants to discuss whether new employees should have Defined Contribution benefit only and how it will impact the plan. Councilmember Pierzchala made a motion to approve the minutes subject to the changes that were noted. Mr. Rodgers seconded. All were in favor.

**V. Board Liability Coverage:**

It was decided to address Item V next. Mr. Cohen gave a brief history and overview of this item. Mr. Rodgers referred to the memo that Mr. Cohen provided and asked if anyone else had any other issues aside from, are we covered and to what extent? And what kind of liability can we incur? Mr. Boylan introduced himself and gave a little background. He said he worked for Willis Insurance Brokers. He has been a resident since 1989. He has served on the Recreation and Parks board and was chairman of the Recreation and Parks Foundation. He said that the insurance policy that Willis provides is designed to protect the Board from claims against a mismanaged plan. He does not see the City's plan as a mismanaged pension plan. He explained that the Board was not covered from fraud or dishonesty, failure to fund a plan or if the City fails to collect funds from employees. The policy has a \$25,000 retention or deductible. He does not feel the Board could be sued, but an individual on the Board could be. The Board makes investment decisions based on advice from the Pension Plan Investment advisors. The Board makes recommendations to the Mayor and Council for other items such as bids for services related to the Pension Plan and for COLA's. Mr. Rodgers asked when someone serves on the Board in a fiduciary capacity should the Board have some other umbrella coverage? Mr. Godette said we do and it is a \$2 million umbrella. Councilmember Pierzchala had two follow up items: 1) that the Retiree Benefit Trust be a covered entity, 2) is \$3 million sufficient coverage for everything covered under the policy?



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The Board thanked Mr. Boylan for attending.

II. Investment Performance Review quarter end June 30, 2012 Pension and Thrift Plan:

Mr. Sherman reviewed the second quarter performance reports for each Plan.

On the Pension Fund, Mr. Sherman reviewed and provided an update through July. Each of the managers are performing in line with expectations this year and the total Fund is up approximately 7% for the year to date time period.

Mr. Sherman reviewed the Manning & Napier fee analysis, which compared the current fee structure of the mutual fund to the separate account. If the Board decides to move to a separate account on the Pension Fund, they would reduce the fee for the Retiree Benefit Trust as well. The total cost savings for the Pension Fund would be approximately \$20,000 per year. However, if the Board moves to a separate account, Manning would be subject to the Fund's investment guidelines, which have a provision that they can't invest in companies that conduct business with Sudan. They currently have this issue with the Retiree Benefit Trust and hired MSCI to conduct the necessary social screens for \$20,000 per year. Segal needs to follow up with the Fund's contact at MSCI to see if these would be an additional cost for the Pension Fund. Mr. Sherman will complete the analysis for the next Board meeting.

Mr. Sherman discussed the current relationship with Principal and the fees they are receiving. Since the Pension Fund hired Prudential to provide administrative services for the majority of participants, excluding the benefit index retirees, the Plan is still paying substantial fees to Principal. Principal has acknowledged that their fees are high and were expecting more assets to leave their platform, which would have lowered the fees they received. Segal will provide an analysis for the next meeting to compare several pricing options. Segal has asked Principal if there are lower share classes available that trigger less revenue sharing. Principal will also let Segal know if the fund can receive a revenue rebate that could be used to pay for plan expenses. The third option would be to move assets away from Principal. Mr. Sherman noted that it may make sense to move the large cap index assets to a low cost provider, which would provide substantial savings. The Board has a policy that they want to keep at least \$25 million with Principal to avoid having them purchase annuities for the Benefit Index retirees.

Mr. Sherman reviewed the Thrift Plan report and noted that the money market assets were mapped to the stable value fund, which has earnings of 1.65% compared to the 0% return they were receiving with the money market investment. Approximately 30% of the assets are in this fund.

The Board accepted the second quarter Investment Performance Reports for the Pension Plan and Thrift Plan as presented by Ryen Sherman from Segal Rogerscasey, Inc.



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III. RB Trust Investment Performance Review Quarter end March 31, 2012:

Mr. Cohen presented the report. He stated that the Board has a contract in place with MSCI to do the Sudan screening and they are fully operational. Reports from MSCI have not shown anything held in the Retiree Benefit Trust for companies investing in Sudan.

The Board accepted the second quarter RB Trust Investment Performance Review as presented.

IV. GASB Statements 67 and 68:

Mr. Graby, of The Hay Group, said GASB 67 and GASB 68 replaced GASB 25 and GASB 27 and now the Pension liability needs to go on the books. He said if the retirees were granted a COLA it would have to be reflected as a liability on the books as well. The actuarial valuation is handling assumptions in conformity with the Actuarial Standards of Practice. Mr. Cohen said the \$25 million unfunded liability will now need to show on the books. Mr. Reese said that Hay can make a change from an open amortization period to a closed one. Mr. Cohen said there are insignificant consequences going from open to closed amortization and the change can simply be made in the actuarial cost method. Hay recommends going to a twenty year closed amortization period. A twenty year closed amortization is a payment method in which twenty equal payments over a twenty year period are made to pay off the entire unfunded liability. The current twenty year open amortization resets the amortization period back to twenty years every year, so the payments are not level but instead decrease over time and never completely pay off the unfunded liability. Mr. Reese said it was good long-term financial planning to make the switch to a twenty year closed amortization.. He said that so much of what is in GASB 67 is already being done. Councilmember Pierzchala made a motion to change from using an open amortization period to using a twenty year closed amortization period for valuation reporting. Mr. France seconded it. All were in favor.

VI. Changing Plan Date to Fiscal Year:

Mr. Cohen explained that the Board looked into changing the plan date to the fiscal year in 2005. The Board decided not to do it at that time. It was requested to revisit it again. He said that it is not a big deal from a legal, record keeper or actuarial standpoint. There would be no significant change to a participant. Councilmember Pierzchala asked if it would have any budget impact. Mr. Cohen said no. Mr. Cohen said it would be have to be approved by the Mayor and Council because it is a Plan Amendment. Mr. Graby said the first contribution would be for fifteen months so it would be a little more. Mr. France made a motion for the Board to send the Plan Amendment to the Mayor and Council. Councilmember Pierzchala seconded it. All were in favor.

VII. IRS Determination Letter/Plan Amendment:

Mr. Cohen stated that the City filed a determination application with the IRS in 2009. The City received a favorable determination letter from the IRS in May, 2012. The IRS requested an amendment to the Plan document, which had to be approved within 90 days. It was presented to the Mayor and Council in July, 2012 and it was approved.



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VIII. Guidelines and Procedures for Citizen Boards and Commissions:

Mr. Cohen said that he wanted to inform the Board that the Mayor and Council recently adopted all the guidelines and procedures. The guidelines allow for standards of operations and consistency among the many Citizen Boards and Commissions.

IX. Retirement Plan Design Study:

Mr. Cohen informed the Board that the Mayor and Council have had discussions to implement a cost analysis study to freeze the Defined Benefit Plan or implement a supplemental contribution from the participants and that they will be looking at it again. The Mayor and Council are waiting until the new City Manager is on board. This will be an element of the discussion on benefits and how much they cost. Councilmember Pierzchala said if anyone wants to give feedback they are welcome to through email.

V. Future Agendas:

The Board decided the following items will be on the future agenda:

- City Code changes related to responsibilities of the Retirement Board (JR)
- FY2014 Actuarial Valuation Report (Staff)
- Award of Investment Consultant RFP (Staff)
- 2013 calendar for meetings (Staff)

Ms. McCombs made motion to adjourn. Mr. France seconded it. All were in favor.

The meeting adjourned at 12:30.